

Message Text

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PAGE 01 BONN 21366 01 OF 03 271652Z

ACTION EUR-12

INFO OCT-01 EA-12 ISO-00 SP-02 USIA-15 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-05 OMB-01 CEA-01 CIAE-00
COME-00 FRB-01 INR-07 NSAE-00 XMB-04 OPIC-06
LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /113 W
-----017010 271702Z /43

R 271640Z DEC 77

FM AMEMBASSY BONN

TO SECSTATE WASHDC 4304

DEPARTMENT TREASURY

INFO AMEMBASSY BERN

AMEMBASSY BRUSSELS

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 21366

USEEC ALSO FOR EMBASSY, USOECD ALSO FOR EMBASSY

DEPARTMENT PASS FEDERAL RESERVE

E.O. 11652: N/A

TAGS: ECON, EFIN, GW

SUBJECT: FINANCIAL DEVELOPMENTS

(WEEK ENDING DECEMBER 26)

1. FOREIGN EXCHANGE MARKET:

THE STRENGTHENING OF THE DEUTSCHEMARK AGAINST THE
DOLLAR CAME TO A HALT AND, SUBSEQUENT TO PRESIDENT
CARTER'S STATEMENTS ON U.S. PAYMENTS POLICY, THE
DOLLAR RALLIED. ON DECEMBER 27, IT STOOD AT DM 2.1490,
THUS EXCEEDING ITS DECEMBER 20 LOW BY ALMOST 4 PFENNIGS.

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PAGE 02 BONN 21366 01 OF 03 271652Z

ON FORWARD MARKETS THE TREND TOWARD INCREASING DOLLAR
DISCOUNTS CONTINUED. SPOT AND FORWARD DOLLAR RATES
DEVELOPED AS FOLLOWS:

FRANKFURT DOLLAR/DM RATES

SPOT DOLLARS FORWARD DOLLARS

(IN DM PER \$1.--) (IN PCT. PER ANNUM)

OPENING FIXING CLOSING ONE-MONTH THREE-MONTH

DEC 20	2.1050	2.1120	2.1090	-4.4	-4.1
21	2.1150	2.1247	2.1200	-4.4	-4.4
22	2.1250	2.1535	2.1565	-4.9	-4.4
23	2.1510	2.1530	2.1525	-4.9	-4.4
27	2.1480	2.1490	N.A.	N.A.	N.A.

2. ECONOMICS MINISTER SEES 3.5 PERCENT

GNP GROWTH RATE FOR 1978:

ECONOMICS MINISTER LAMBSDORFF IS QUOTED IN AN INTERVIEW WITH "DIE WELT" AS BELIEVING REAL GNP GROWTH OF 3.5 PERCENT FOR 1978 AS PROBABLE. IN THE DEC. 24 "DIE WELT" INTERVIEW, LAMBSDORFF CHARACTERIZED THIS LEVEL OF REAL GROWTH AS OTHERWISE SATISFACTORY EXCEPT FOR THE HIGH LEVEL OF UNEMPLOYMENT. (NOTE: GENERAL VIEW OF FRG ECONOMIC EXPERTS IS THAT MORE THAN FOUR PERCENT GNP GROWTH IS REQUIRED TO REDUCE THE UNEMPLOYMENT RATE, CURRENTLY ABOUT 4.5 PERCENT). HE QUALIFIED HIS ESTIMATE WITH THE OBSERVATION THAT THE CONTINUING DEPRECIATION OF THE DOLLAR MADE ANY PREDICTIONS ESPECIALLY DIFFICULT.

3. FEDERAL GOVERNMENT FLOATS DM 1.7 BILLION LOAN:

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PAGE 03 BONN 21366 01 OF 03 271652Z

THE BUNDESBANK ANNOUNCED A DM 1.7 BILLION FEDERAL GOVERNMENT LOAN, THE LARGEST OF ITS KIND SO FAR IN THE HISTORY OF THE FRG. ISSUED WILL BE:

- (A) A DM 800 MILLION NON-CALLABLE 6-YEAR LOAN
AT AN ISSUE PRICE OF 100 AND AN ANNUALLY
PAYABLE COUPON OF 5.5 PERCENT; AND
- (B) A DM 900 MILLION NON-CALLABLE 10-YEAR LOAN
AT AN ISSUE PRICE OF 99.75 AND AN ANNUALLY
PAYABLE COUPON OF 6 PERCENT (EFFECTIVE YIELD
6.03 PERCENT).

DM 600 MILLION OF THE 6-YEAR LOAN AND DM 800 MILLION OF THE 10-YEAR LOAN WILL BE OFFERED ON THE MARKET DURING THE PERIOD DECEMBER 29, 1977 - JANUARY 4, 1978. THE REMAINDER WILL BE RETAINED BY THE BUNDESBANK FOR

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PAGE 01 BONN 21366 02 OF 03 271658Z
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LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /113 W
-----017028 271702Z /43

R 271640Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4305
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
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AMEMBASSY PARIS
AMEMBASSY ROME
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AMCONSUL FRANKFURT

UNCLAS SECTION 02 OF 03 BONN 21366

DISPOSAL TO ACCORD WITH MARKET CONDITIONS. THE TIMING
OF THE LOAN OFFERS PRIVATE INDIVIDUALS EITHER A LAST-
MINUTE CHANCE TO INVEST PRIOR TO YEAR'S END IN ORDER
TO TAKE ADVANTAGE OF ANY AS YET UNUSED OPPORTUNITIES TO
CLAIM SAVINGS PREMIUMS FOR 1977 OR A POSSIBILITY TO
REINVEST PREVIOUSLY ILLIQUID STATUTORY LONG-TERM SAVINGS
INSTRUMENTS WHICH WILL BECOME LIQUID ON JANUARY 1, 1978.

4. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD DECEMBER 8-15 THE BUNDESBANK'S NET
FOREIGN POSITION INCREASED BY DM 2.2 BILLION TO DM 94.2
BILLION, THE HIGHEST LEVEL REACHED SINCE OCTOBER OF
LAST YEAR. THE INCREASE REFLECTED DOLLAR PURCHASES
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PAGE 02 BONN 21366 02 OF 03 271658Z

BY THE BUNDESBANK ON FOREIGN EXCHANGE MARKETS AND, IN
PART, BUNDESBANK INTERVENTIONS WITHIN THE SNAKE.

FOREIGN EXCHANGE HOLDINGS INCREASED BY DM 1,446 MILLION, CLAIMS AGAINST THE EUROPEAN FUND FOR MONETARY COOPERATION BY DM 768 MILLION, GOLD HOLDINGS BY DM 31 MILLION AND LIABILITIES BY ABOUT DM 10 MILLION. GERMANY'S IMF GOLD TRANCHE POSITION DECLINED BY DM 34 MILLION.

5. BANK LIQUIDITY:

DURING THE SAME PERIOD BANK LIQUIDITY INCREASED BY DM 1.6 BILLION. THE BASIC FACTOR INCREASING LIQUIDITY WAS THE ABOVE-MENTIONED INFLOW OF FOREIGN EXCHANGE BUT DECREASES IN CURRENCY IN CIRCULATION (DM 0.5 BILLION) AND THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK (DM 0.3 BILLION) CONTRIBUTED. OTHER, NOT SPECIFIED FACTORS INCREASED LIQUIDITY BY ANOTHER DM 1.5 BILLION. THE ONLY FACTOR REDUCING LIQUIDITY WAS A DM 2.9 BILLION INCREASE IN OFFICIAL NET ASSETS HELD AT THE BUNDESBANK REFLECTING FIRST PAYMENTS FOR THE MAJOR MID-DECEMBER TAX DATE. THE BANKS USED THE INCREASE IN LIQUIDITY TO REDUCE REDISCOUNT BORROWINGS BY DM 1.3 BILLION AND LOMBARD BORROWINGS BY DM 0.3 BILLION. ON DECEMBER 15, THE BANKS' TOTAL CENTRAL BANK INDEBTEDNESS AMOUNTED TO DM 14.1 MILLION (REDISCOUNT INDEBTEDNESS: DM 14.0 BILLION; LOMBARD INDEBTEDNESS: DM 0.1 BILLION) AS COMPARED WITH DM 15.7 BILLION ON DECEMBER 7.

6. MONEY MARKET:

THE GERMAN MONEY MARKET, WHICH USUALLY IS VERY TIGHT IN DECEMBER DUE LARGELY TO THE COINCIDENCE OF A MAJOR UNCLASSIFIED

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PAGE 03 BONN 21366 02 OF 03 271658Z

TAX DATE AND A SUBSTANTIAL INCREASE IN CURRENCY IN CIRCULATION DURING THE CHRISTMAS SEASON, WAS EXTREMELY LIQUID DURING THE PERIOD UNDER REVIEW, REFLECTING THE EARLIER SUBSTANTIAL INFLOWS OF FOREIGN EXCHANGE. IN FACT, CALL MONEY GOT COMPLETELY OUT OF TOUCH WITH THE LOMBARD RATE AND DROPPED TO 1.50 - 1.75 PERCENT. DURING THE PERIOD DECEMBER 20-23, FRANKFURT INTERBANK MONEY RATES WERE AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
	-----	-----	-----
DEC 20	3.20-3.40	3.85	3.75
21	2.50-3.00	3.80	3.70
22	1.50-2.00	3.80	3.70
23	1.50-1.75	3.80	3.70

7. GERMAN BANKS REDUCE INTEREST RATES
FOR OVERDRAFTS TO INDIVIDUALS:

IN REACTION TO THE 1/2 PERCENT REDISCOUNT AND LOMBARD
RATE REDUCTIONS THE BIG THREE PRIVATE GERMAN BANKS
HAVE REDUCED INTEREST RATES FOR OVERDRAFTS GRANTED
TO INDIVIDUALS. THE DEUTSCHE BANK REDUCED THE INTEREST
RATE FROM 8 3/4 PERCENT TO 8 PERCENT, THE DRESDNER
BANK FROM 8 3/4 TO 8 1/4 PERCENT AND THE COMMERZBANK
FROM 8 1/2 TO 8 PERCENT. THE BANKS HAVE NOT YET
DECIDED ON A REDUCTION OF INTEREST RATES ON SAVINGS
DEPOSITS. ACCORDING TO THE FINANCIAL PRESS, SUCH A
DECISION WILL BE DELAYED UNTIL THE NEW YEAR,
PROBABLY AS LATE AS FEBRUARY.

8. BOND MARKET:

ON THE MARKET FOR DOMESTIC BONDS, THE TREND TOWARD
PRICE INCREASES INITIATED BY THE RECENT BUNDESBANK
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PAGE 04 BONN 21366 02 OF 03 271658Z

MEASURES CONTINUED AND CURRENT YIELDS DECLINED.

UNCLASSIFIED

NNN

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PAGE 01 BONN 21366 03 OF 03 271659Z
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-----017037 271701Z /43

R 271640Z DEC 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 4306
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
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UNCLAS SECTION 03 OF 03 BONN 21366

ACCORDING TO THE PRESS, AVERAGE CURRENT YIELDS OF
DOMESTIC BONDS, BROKEN DOWN BY REMAINING MATURITY,
DEVELOPED AS FOLLOWS:

YIELDS OF OUTSTANDING DOMESTIC BONDS

REMAINING MATURITY

(YEARS) 1 3 5 7 9 10

DECEMBER 23 4.15 5.00 5.45 5.85 6.15 6.25
16 4.30 5.05 5.55 5.90 6.20 6.30

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PAGE 02 BONN 21366 03 OF 03 271659Z

9. FOREIGN DM BONDS:

THE FOLLOWING FOREIGN DM BONDS WERE ANNOUNCED DURING
THIS PERIOD:

STANDARD CHARTERED BANK: DM 125 MILLION; COUPON 6.5
PERCENT; ISSUE PRICE 100.5; MATURITY 10 YEARS.

INTER-AMERICAN DEVELOPMENT BANK: DM 100 MILLION; COUPON
6.25 PERCENT; ISSUE PRICE 100.5; MATURITY 10 YEARS.

10. WEST GERMAN LANDESBANK CHAIRMAN
RESIGNS UNEXPECTEDLY:

LUDWIG POUILLAIN, CHAIRMAN OF THE FRG'S THIRD LARGEST
BANK (WESTDEUTSCHE LANDESBANK), SUBMITTED HIS RESIGNATION
TO THE BANK'S BOARD EFFECTIVE DECEMBER 22 WITH THE
EXPLANATION THAT INFORMATION HAD BEEN RELEASED TO THE
PUBLIC WHICH COULD CALL INTO QUESTION HIS INTEGRITY.
THIS RATHER OBLIQUE EXPLANATION WAS LATER CLARIFIED
AS REFERRING TO POUILLAIN'S CONSULTANCY RELATIONSHIP
WITH A BROKER WHO, ACCORDING TO PRESS REPORTS, IS
ACCUSED OF FRAUD AND INSTIGATION TO FRAUD IN CONNECTION
WITH HIS FIRM'S BANKRUPTCY. PRESS REPORTS INDICATE
THAT POUILLAIN'S QUESTIONABLE ETHICS IN SERVING AS A

PRIVATE CONSULTANT TO A BROKERAGE FIRM AT THE SAME TIME
HE WAS DRAWING A HEFTY SALARY AS LANDESBANK PRESIDENT
LED TO HIS RESIGNATION, NOT ANY ILLEGAL ACTIONS ON HIS
PART.

11. ECONOMIC INDICATORS PUBLISHED THIS WEEK:

SEASONALLY ADJUSTED BUNDESBANK DATA
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PAGE 03 BONN 21366 03 OF 03 271659Z

JULY AUGUST SEPT OCT

RETAIL SALES VOLUME

(1970 EQUALS 100) 119 119 118 --

VOLUME OF TRADE

(DM BILLION)

EXPORTS 16.28 16.74 17.10 17.33

IMPORTS 14.75 14.29 14.94 14.54

BUILDING PERMITS

FOR HOUSING UNITS

(1970 EQUALS 100) 76 75 77 --

INDUSTRIAL WAGES

PER EMPLOYEE

(1970 EQUALS 100) 187 191 194 --

AUGUST SEPT OCT NOV

LIVING COSTS

(1970 EQUALS 100) 147.3 147.3 147.6 147.7

INDUSTRIAL PRODUCER

PRICES

(1970 EQUALS 100) 144.8 145.0 145.0 --

AGRICULTURAL

PRODUCER PRICES

(1970 EQUALS 100) 147.0 144.0 142.4 --

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: ECONOMIC REPORTS
Control Number: n/a
Copy: SINGLE
Sent Date: 27-Dec-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN21366
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770482-0210
Format: TEL
From: BONN USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19771217/aaaaanlr.tel
Line Count: 374
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 9a630efd-c188-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
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Original Previous Classification: n/a
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Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 08-Feb-2005 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 129223
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING DECEMBER 26)
TAGS: ECON, EFIN, GE
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/9a630efd-c188-dd11-92da-001cc4696bcc
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Margaret P. Grafeld
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